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RESCINDING THE INTERNATIONAL HARVESTER EXPORT LICENSE

The Special Situation Group, at its meeting of December 28, recommended that the already issued license for the export of International Harvester blueprints, plans, engineering and technical assistance to the Soviet Union for the design and construction of a plant to manufacture agricultural combines be rescinded. This was the only recommendation of the Special Situation Group on which the President reserved decision. This memorandum outlines the project and summarizes the arguments pro and con.

Background

A license has been issued to International Harvester to provide the Soviet Union with plans and engineering and technological assistance over a five-year period for the design and construction of a plant to manufacture agricultural combines. Contracts have not yet been signed. Financing of the project has not yet been arranged by the Soviets and no deliveries have taken place as yet. The total cost will be about \$300,000,000, of which \$10,000,000 will be paid upon signing. This is almost pure profit to International Harvester because their costs will be negligible. The plant will produce 30,000 combines per year, or about 24% of current Soviet production. (C)

Arguments in Favor of Rescinding the License (Basically the Department of Defense position, concurred in by State, USUN, CIA, Treasury and NSC.)

-- The proposed plant will significantly improve Soviet grain harvesting efficiency, saving them foreign exchange and reducing their need for grain imports. (C)

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-- The plant may replace one already existing in the Taganrog industrial complex, which might then be converted to the production of armored personnel carriers or bridging equipment. (C)

-- It will be difficult for us to argue to our COCOM partners that controls should be tightened if we go ahead with this sale. (U)

-- Our farmers will lose sales and the Soviets will have more hard currency with which to buy military-related technology. (U)

Arguments Against Rescinding the License (Department of Commerce position, concurred in by USTR.)

-- Since the license has already been issued, this case is in a completely different category from all the other decisions made by the Special Situation Group. Singling out this transaction for differing treatment will bring our credibility with the business community into question. (S)

-- Klaus, a German firm, will sell similar technology to the Soviets if International Harvester is prohibited from making the sale. (S)

-- Loss of this project may cause a collapse of International Harvester's debt rescheduling with its banks, forcing bankruptcy on the company. (S)

-- Loss of the project will directly cost 300 jobs, International Harvester estimates, not to mention additional job loss should International Harvester go bankrupt. (U)

-- Because no "high technology" is involved in this transaction, denying this export will weaken, rather than strengthen, credibility with our allies on our initiatives to tighten COCOM high technology controls.

-- The plant has no military significance and cannot be easily converted to the production of APCs. (S)

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